

Corporate Governance Report 2008



Nestlé

Good Food, Good Life

including
Compensation Report 2008

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⁽¹⁾ The full Board of Directors Regulations and Committee Charters are published on www.nestle.com

⁽²⁾ The term senior management, as used in the SIX Directive, is replaced by Executive Board throughout this document

Preliminary remarks

The Nestlé Corporate Governance Report 2008 follows the SIX Swiss Exchange Directive on Information Relating to Corporate Governance and takes into account the Swiss Code of Best Practice of Corporate Governance. Additional information can be found in the Compensation Report (Appendix 1).

To avoid duplication of information, cross-referencing to other reports is made in some sections, namely the Management Report 2008, the 2008 Financial Statements that comprise the Consolidated Financial Statements of the Nestlé Group and the Financial Statements of Nestlé S.A., as well as the Articles of Association of Nestlé S.A., whose full text can be consulted in Appendix 2 or on www.nestle.com.

The Consolidated Financial Statements of the Nestlé Group 2008 comply with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). Where necessary, these disclosures have been extended to comply with the requirements of the SIX Swiss Exchange Directive.

1. Group structure and shareholders

1.1 Group structure

Please refer to the Management Report 2008 for the overview of Directors and Officers.

1.1.1 Description of the issuer's operational group structure

For the general organisation chart of Nestlé S.A., refer to page 22 of this document. The Group's Management structure is represented in the segmental information (refer to Note 3 of the Consolidated Financial Statements of the Nestlé Group 2008).

1.1.2 All listed companies belonging to the issuer's group

Please refer to page 80 of the Management Report 2008 for Nestlé S.A.'s registered offices, its stock exchange listing and quotation codes and information on market capitalisation.

Please refer to the Consolidated Financial Statements of the Nestlé Group 2008, page 80 for the enumeration of the principal affiliated and associated companies, with an indication of their company names, registered office, place of listing, securities' ISIN numbers, their market capitalisation and the Company's participation.

1.1.3 The non-listed companies belonging to the issuer's consolidated entities

Please refer to the Consolidated Financial Statements of the Nestlé Group 2008, page 80 for the enumeration of the principal affiliated and associated companies, with an indication of their company names, registered office, share capital and the Company's participation.

1.2 Significant shareholders

The Company is not aware of any shareholder holding, directly or indirectly, 3% or more of the share capital, other than Nestlé S.A. itself, holding together with a Nestlé affiliate, 214 392 760 treasury shares, representing 5.6% of the share capital of which 4.4% were repurchased under the Share Buy-Back Programme (refer to Note 21.3 of the Consolidated Financial Statements of the Nestlé Group 2008).

During 2008, the Company published in the Swiss Official Gazette of Commerce several disclosure notifications pertaining to the indirect holdings of The Capital Group Companies, Inc. on behalf of various funds and clients; those holdings fluctuated above and below the 3% threshold and finally went below 3% on 24 July 2008.

With respect to nominees, Chase Nominees Ltd., London was a registered holder of 400 776 847 million shares, i.e. 10.5% of the outstanding shares of the Company as at 31 December 2008. At the same date, Citibank N.A., as depository for the shares represented by American Depository Shares, was the registered holder of 261 844 050 million shares, i.e. 6.8% of the outstanding shares of the Company.

1.3 Cross-shareholdings

The Company is not aware of cross-shareholdings exceeding 5% of the capital or voting rights on both sides.

2. Capital structure

2.1 Capital

The ordinary share capital of Nestlé S.A. is CHF 383 000 000. The conditional share capital is CHF 10 000 000. Nestlé S.A. does not have any authorised share capital.

2.2 Conditional capital

The share capital may be increased in an amount not to exceed CHF 10 000 000 by issuing up to 100 000 000 registered shares with a nominal value of CHF 0.10 each through the exercise of conversion rights and/or option rights granted in connection with the issuance by Nestlé or one of its subsidiaries of newly or already issued convertible debentures, debentures with option rights or other financial market instruments. Thus the Board of Directors has at its disposal a flexible instrument enabling it, if necessary, to finance the activities of the Company through convertible debentures. For a description of the group of beneficiaries and of the terms and conditions of the issue of conditional capital, refer to art. 3^{bis} of the Articles of Association of Nestlé S.A.

2.3 Changes in capital

The share capital was reduced three times in the last three financial years as a consequence of various share buy-back programmes launched by the Company; the resulting cancellations of shares were approved at the Annual General Meetings of 6 April 2006, 19 April 2007 and 10 April 2008. In 2006, the share capital was reduced by 2 784 300 shares from CHF 403 520 000 to CHF 400 735 700. In 2007, the share capital was further reduced by 7 663 200 shares to CHF 393 072 500. Finally in 2008, the share capital was reduced by 10 072 500 shares to CHF 383 000 000. Additionally, the shareholders gave their assent at the last Annual General Meeting to a 1-for-10 share split and respective increase of the number of shares. As a consequence, the nominal value of the shares was reduced from CHF 1.– to CHF 0.10 on 30 June 2008. For the breakdown of capital ("equity") for 2008, 2007 and 2006 see the changes in equity in the Consolidated Financial Statements of the Nestlé Group 2008 and 2007.

2.4 Shares and participation certificates

Nestlé S.A.'s capital is composed of registered shares only.

The number of registered shares with a nominal value of CHF 0.10 each, fully paid up was 3 830 000 000 at 31 December 2008.

According to art. 11 par. 1 of the Articles of Association, each share recorded in the share register as share with voting rights confers the right to one vote to its holder. See also point 2.6.1 below.

Shareholders have the right to receive dividends. There are no participation certificates.

2.5 Profit sharing certificates

There are no profit sharing certificates.

2.6 Limitations on transferability and nominee registrations

2.6.1 Limitations on transferability for each share category, along with an indication of statutory group clauses, if any, and rules on making exceptions

According to art. 5 par. 5, lit. a of the Articles of Association, no person or entity shall be registered with voting rights for more than 5% of the share capital as recorded in the commercial register. The limitation on registration also applies to persons who hold some or all their shares through nominees pursuant that article. Legal entities that are linked to one another, through capital, voting rights, management or in any other manner, as well as all natural persons or legal entities achieving an understanding or forming a syndicate or otherwise acting in concert to circumvent the regulations concerning the limitation on registration or the nominees, shall be counted as one person or nominee (art. 5 par. 7 of the Articles of Association). The limitation on registration also applies to shares acquired or subscribed by the exercise of subscription, option or conversion rights (art. 5 par. 10 of the Articles of Association). See also art. 5 par. 6 and 9 of the Articles of Association and point 2.6.3 below.

2.6.2 Reasons for granting exceptions in the year under review

Please refer to points 2.6.3 and 6.1.2 below.

2.6.3 Admissibility of nominee registrations, along with an indication of percent clauses, if any, and registration conditions

Pursuant art. 5 par. 6 and 9, the Board of Directors has issued regulations concerning nominees, setting forth rules for their entry as shareholders in the share register. These regulations allow the registration of:

- Nominees N ("N" as Name of beneficial owner disclosed): where trading and safekeeping practices make individual registration of beneficial owners difficult or impractical, shareholders may register their holdings through a Nominee N with voting

rights, subject to the specific understanding that the identity and holdings of beneficial owners are to be disclosed to the Company, periodically or upon request. Holdings of a Nominee N, or Nominees N acting as an organised group or pursuant to a common agreement, may not otherwise exceed 5% of the share capital of the Company. Holdings exceeding the 5% limit (respectively the limit fixed by the Board of Directors, see 6.1.2) are registered without voting rights.

- Nominees A (“A” as Anonymous beneficial owner): registration without voting rights.

2.6.4 Procedure and conditions for cancelling statutory privileges and limitations of transferability

Please refer to point 6.1.3 below.

2.7 Convertible bonds and warrants/options

As at 31 December 2008, there are no outstanding convertible bonds or warrants issued by the Company or by subsidiaries on shares of the Company.

The only options issued by Nestlé S.A. are employee options allocated under the Nestlé Management Stock Option Plan (MSOP). The features of this plan are detailed in Note 17.1 of the Consolidated Financial Statements of the Nestlé Group 2008.

3. Board of Directors

3.1 Members of the Board of Directors

Name	Year of birth	Nationality	Education ^(a)	First election	Term expires ^(b)
Peter Brabeck-Letmathe Chairman	1944	Austrian	Economics	1997	2012
Paul Bulcke CEO	1954	Belgian	Economics and Business Administration	2008	2011
Andreas Koopmann 1st Vice Chairman	1951	Swiss	Mechanical Engineering and Business Administration	2003	2011
Rolf Hänggi 2nd Vice Chairman	1943	Swiss	Law and Finance	2004	2011
Edward George (Lord George)	1938	British	Economics	2004	2011
Kaspar Villiger	1941	Swiss	Mechanical Engineering	2004	2009
Daniel Borel	1950	Swiss	Physics and Computer Science	2004	2009
Jean-Pierre Meyers	1948	French	Economics	1991	2011
André Kudelski	1960	Swiss	Physics	2001	2011
Carolina Müller-Möhl	1968	Swiss	Political Science	2004	2009
Günter Blobel	1936	German	Medicine	2005	2009
Jean-René Fourtou	1939	French	Ecole Polytechnique	2006	2011
Steven G. Hoch	1954	American/Swiss	International Relations and Economics	2006	2011
Naïna Lal Kidwai	1957	Indian	Economics and Business Administration	2006	2011
Beat Hess	1949	Swiss	Law	2008	2011

Prof. Peter Böckli retired at the Annual General Meeting of 10 April 2008.

(a) For complete information: please refer to individual CVs on www.nestle.com.

(b) As Nestlé's revised Articles of Association, adopted on 10 April 2008, provide for three-year terms, all members of the Board will be re-elected over the course of the following three years.

a) Operational management tasks of the members of the Board of Directors

With the exception of Paul Bulcke, all members of the Board of Directors are non-executive members.

b) Information on non-executive members of the Board of Directors

With the exception of Peter Brabeck-Letmathe and Paul Bulcke, all non-executive members of the Board of Directors are independent, were not previously members of the Nestlé management and have no important business connections with Nestlé. For cross-involvement, see point 3.3.

3.2 Professional background and other activities and functions

Peter Brabeck-Letmathe, Chairman



Peter Brabeck-Letmathe joined the Nestlé Group's operating company as a salesman in Austria in 1968. Between 1970 and 1987, he held a series of responsibilities in Latin America. In 1987, he transferred to Nestlé's international Headquarters in Vevey, Switzerland, as Vice President and was named Executive Vice President in 1992. At the Annual General Meeting of Shareholders in June 1997, Peter Brabeck-Letmathe was elected member of the Board of Nestlé S.A. In 1997, the Board of Directors of Nestlé S.A. appointed him CEO (Administrateur délégué). In 2001, he was elected Vice Chairman and in 2005 Chairman of the Board of Directors. As of 10 April 2008, Peter Brabeck-Letmathe resigned as CEO remaining Chairman of the Board of Directors.

As a Nestlé S.A. representative, he serves as Vice Chairman of L'Oréal S.A., France. Peter Brabeck-Letmathe is also Vice Chairman of the Board of Directors of Credit Suisse Group, Switzerland, and member of the Board of Roche Holding Ltd., Switzerland as well as of Delta Topco Limited, Jersey.

In addition, he is a member of the European Roundtable of Industrialists, Belgium and a member of the Foundation Board of the World Economic Forum, Switzerland.

Paul Bulcke, CEO



Paul Bulcke began his career in 1977 as a financial analyst for Scott Graphics International in Belgium before moving to the Nestlé Group in 1979 as a marketing trainee. From 1980 to 1996, he held various responsibilities in Nestlé Peru, Nestlé Ecuador and Nestlé Chile before moving back to Europe as Managing Director of Nestlé Portugal, Nestlé Czech and Slovak Republic, and Nestlé Germany. In 2004, he was appointed as Executive Vice President, responsible for Zone Americas. At the General Annual Meeting of Shareholders in April 2008, Paul Bulcke was elected member of the Board of Directors of Nestlé S.A. The Board of Directors of Nestlé S.A. appointed him CEO (Administrateur délégué) effective 10 April 2008.

As a representative of Nestlé, Paul Bulcke serves as Co-Chairman of the Supervisory Board of Cereal Partners Worldwide, Switzerland and is a Board member of Alcon Inc., Switzerland.

Andreas Koopmann, 1st Vice Chairman



Andreas Koopmann began his career in 1979 as Assistant to the Chairman and CEO of Bruno Piatti AG, Switzerland, and from 1980 to 1982 was Assistant to a Group Executive at Motor Columbus AG, Holding, Switzerland. Since 1982, he has been at Bobst Group, starting as Vice President of Engineering and Manufacturing in Roseland, New Jersey, USA. In 1989, he returned to Switzerland, holding a number of senior positions in the company, including member of the Group Executive Committee in charge of Manufacturing. He was a member of the Board of Directors for Bobst Group from 1998 to 2002 and was appointed to his present position as CEO in 1995.

Presently, he also serves as Vice Chairman of Swissmem in Switzerland.

Rolf Hänggi, 2nd Vice Chairman



In 1970 Rolf Hänggi started his career as a financial and investment analyst at Swiss Bank Corporation, Switzerland, before moving on to the Union Bank of Switzerland and then to the Baselland Cantonal Bank, Switzerland. In 1976 he joined Zurich Insurance Company and in 1986 became a member of the Corporate Executive Board and Head of finance and investments in securities, worldwide. He was appointed Deputy CEO of Zurich Insurance Company in 1988, serving as a Board member from 1993 to 1997, before becoming a private consultant.

Presently, Rolf Hänggi also serves as Chairman of Rüd, Blass & Cie AG, Bankers, Switzerland. In addition, he is a member of the Board of Trustees of the Foundation Luftbild Schweiz, Switzerland; a member of the Foundation Board, Werner Abegg Fonds Foundation, Switzerland; and also sits on the Advisory Board for the Mastercourse of Advanced Studies in Applied History at the University of Zurich, Switzerland.

Edward George (Lord George)



Lord George joined the Bank of England directly from University in 1962. Between 1966 and 1974, he was seconded first to the Bank for International Settlements, Basle, Switzerland, and then to the International Monetary Fund. During the next 16 years, Lord George held various senior positions within the Bank of England before being appointed deputy Governor in 1990. From 1993 to 2003, he served as Governor of the Bank of England.

He is also a Board member of the Bank for International Settlements, Basle, Switzerland; N. M. Rothschild and Sons Ltd, Great Britain; and Rothschilds Continuation Holdings AG, Switzerland.

Kaspar Villiger



Kaspar Villiger began his career as manager and joint owner of family firm Villiger Söhne AG in 1966. In parallel, he started a political career in 1972 as a member of the Swiss Liberal Democratic Party in Canton Lucerne. He was a member of the Swiss federal parliament and elected to the National Council in 1982 and to the Council of States in 1987 and was elected to the Federal Council in 1989. From 1989 to 1995, he was Defence Minister, and from 1995 to 2003 he was Finance Minister. He served as President of the Swiss Confederation in both 1995 and 2002.

Kaspar Villiger is also a Board member of AG für die Neue Zürcher Zeitung, Switzerland, and Swiss Re (Swiss Reinsurance Company), Switzerland.

Daniel Borel



Daniel Borel is the co-founder of Logitech. He served as Chairman and CEO of Logitech S.A. from 1982 to 1988 and of Logitech International S.A. from 1992 to 1998. Since 1998, he has served as Chairman of Logitech International S.A. As of January 2008, Daniel Borel handed over the office of Chairman remaining a member of the Board of Directors of Logitech International S.A.

In addition, he serves as Chairman of swissUp, a Foundation for Excellence in Education in Switzerland, and is a member of the Board of Defitech Foundation, Switzerland.

Jean-Pierre Meyers



From 1972 to 1980, Jean-Pierre Meyers was attached to the directorate of financial affairs at Société Générale. During the same time he was Assistant Professor at the Ecole Supérieure de Commerce in Rouen, France. From 1980 to 1984, he was a Director of the bank Odier Bungener Courvoisier. Jean-Pierre Meyers has been a Board member of L'Oréal S.A., France, since 1987 and Vice Chairman since 1994. He has also served as Vice Chairman of the Bettencourt-Schueller Foundation since 1988.

In addition, Jean-Pierre Meyers is a member of the Supervisory Board at Téthys S.A.S. in France.

André Kudelski



André Kudelski started his career in 1984 at Kudelski SA, Switzerland, as a research and development engineer. After working in Silicon Valley, he returned to Kudelski SA in 1986 and was appointed product manager for Pay-TV solutions. From 1989 to 1990, he was the director of the Pay-TV division (NagraVision) before taking over the position of Chairman and CEO of the Kudelski Group in 1991. In addition, he became Chairman of Nagra Plus SA, a joint venture of Kudelski SA and Canal Plus in 1992. He has been appointed Chairman of the Board of Directors of OPEN TV, a Nasdaq listed company, controlled by Kudelski.

André Kudelski serves on the Board of Directors and the Audit Committee of Dassault Systèmes SA, France, and Edipresse Group, Switzerland. Furthermore, he is a Board member of HSBC Private Bank Holdings and of the Swiss-American Chamber of Commerce.

Carolina Müller-Möhl



Carolina Müller-Möhl was a journalist and advertising and PR consultant until 1999 when she became Vice Chairperson of the Board of Müller-Möhl Holding AG. In 2000, she became President of the Müller-Möhl Group.

Carolina Müller-Möhl is also Chairperson of Hyos Invest Holding AG, Switzerland, and a Board member of Orascom Development Holding AG, Switzerland.

In addition, she is a member of the Foundation Board of Pestalozzianum Foundation, Switzerland, a member of the Advisory Board of the Swiss Economic Forum and Jury President Award, a member of the Board of the Pestalozzi Foundation and was nominated as a Young Global Leader 2007 by the World Economic Forum and is founding member of Forum Bildung.

Günter Blobel



Günter Blobel earned a doctoral degree in oncology in 1967 and was appointed to the Howard Hughes Medical Institute in 1986. In 1999, he was awarded the Nobel Prize in Physiology or Medicine. He currently holds a position at the Rockefeller University, New York. Günter Blobel is the co-founder of Chromocell, USA, and also a Board member of IFF – International Flavours & Fragrances Inc., USA.

In addition, he is Chairman of the Friends of Dresden Inc., USA, and has been a member of the Nestlé Nutrition Council (NNC) – a group of international experts who advise Nestlé on nutrition – since August 2001.

Jean-René Fourtou



Jean-René Fourtou began his career at Bossard & Michel in 1963. He became CEO of Bossard Consultants in 1972 and later Chairman and CEO of the Bossard Group from 1977 to 1986. From 1986 to 1999, he served as Chairman and CEO of Rhône-Poulenc Group, and when Hoechst and Rhône-Poulenc merged to create Aventis in 1999, he became Vice Chairman of the Management Board and Managing Director of the company until 2002. Since 2005, he has been Chairman of the Supervisory Board of Vivendi, where he was Chairman and CEO from 2002 to 2005.

Jean-René Fourtou is also Chairman of the Supervisory Board of Canal+ Group, France, member of the Supervisory Board of AXA Group, France, and Board member of Sanofi-Aventis, France, Capgemini, France, NBC Universal, USA and Maroc Télécom, Morocco.

Steven G. Hoch



Steven G. Hoch started his career in 1978 at the Chemical Bank in New York and Zurich, where he held a series of positions in commercial banking, principally advising multi-national companies. Steven Hoch was Senior Vice President and a member of the Management Committee at Bessemer Trust Company, N.A., New York, from 1990 to 1994, and a member of the Executive Committee and Head of Client Service at Pell Rudman Trust Company, Boston, from 1994 to 2002. In 2002, he founded Highmount Capital, LLC, a US-based investment management firm where he is a Senior Partner.

Steven G. Hoch is also a Director of the American Swiss Foundation, a trustee of the Woods Hole Oceanographic Institution, USA, and a member of the National Board of the Smithsonian Institution, USA.

Nāina Lal Kidwai



Nāina Lal Kidwai started her career in 1982 and until 1994 was at ANZ Grindlays Bank Plc. (now Standard Chartered Bank). From 1994 to 2002, she was Vice Chairman and Head of Investment Banking at Morgan Stanley India before moving to HSBC. Currently, she is CEO and Country Head of the HSBC Group of Companies in India and a Group General Manager of the Bank.

She serves the Government of India on the National Science and Technology Entrepreneurship Development Board, the National Integration Council and the Indo-German Consultative Group. She is active on several committees of Chambers of Industry and Commerce. She is a member of the Indian Advisory Council of the City of London. Her involvement with educational institutions includes the Global Board of Dean's Advisors of the Harvard Business School, the India Board of John Hopkins School of Advanced International Studies, USA, and the Advisory Boards of IIM Ahmedabad and IIT Mumbai. She is on the Board of Grassroots Trading Network for Women – a not-for-profit organisation to empower underprivileged women.

Nāina Lal Kidwai was given the Padma Shri Award by the Indian government in 2007.



Beat Hess started his career in 1977 at BBC Brown Boveri Ltd. in Baden as Legal Counsel where he was promoted to General Counsel in 1986. From 1988 to 2003, he was Senior Group Officer, General Counsel and Secretary for ABB Ltd. in Zurich. As of 2003, Beat Hess is Group Legal Director of Royal Dutch Shell plc, The Hague, The Netherlands, responsible on worldwide level for legal and intellectual property services as well as for the Shell Compliance Office. Beat Hess is also a member of the Shell Group Executive Committee.

3.3 Cross-involvement

Peter Brabeck-Letmathe and Jean-Pierre Meyers are on the Boards of Directors of both Nestlé and L'Oréal.

3.4 Principles of election procedure

The Annual General Meeting has the competence to elect and remove the members of the Board. In principle, the initial term of office of a Board member is three years. Outgoing Directors are re-eligible. Each year the Board is renewed by rotation in a way that, after a period of three years, all members will have been subject to re-election.

The Board of Directors elects, for a one-year term, the Chairman, the CEO (administrateur délégué), two Vice Chairmen and the members of the Committees.

The term of office of a Board member expires no later than the Annual General Meeting following his or her 72nd birthday.

For the principles of the selection procedure: see point 3.5.2 below (Nomination Committee).

3.5 Internal organisational structure

3.5.1 Allocation of tasks within the Board of Directors

	Chairman's and Corporate Governance Committee	Compensation Committee	Nomination Committee	Audit Committee
Peter Brabeck-Letmathe Chairman	• (Chair)		•	
Paul Bulcke CEO	•			
Andreas Koopmann 1st Vice Chairman	•	•		
Rolf Hänggi 2nd Vice Chairman	•		•	• (Chair)
Edward George (Lord George)	•	•		
Kaspar Villiger			• (Chair)	•
Daniel Borel		• (Chair)		
Jean-Pierre Meyers				•
André Kudelski				•
Carolina Müller-Möhl				
Günter Blobel				
Jean-René Fourtou		•		
Steven G. Hoch			•	
Naina Lal Kidwai				
Beat Hess				

3.5.2 Tasks and area of responsibility for each Committee of the Board of Directors

The powers and responsibilities of each Committee are established in the applicable Committee Charter, which is approved by the Board. Each Committee is entitled to engage outside counsel.

The **Chairman's and Corporate Governance Committee** consists of the Chairman, the two Vice Chairmen, the CEO (administrateur délégué) and other members as elected by the Board. It liaises between the Chairman and the full Board of Directors in order to act as a consultant body to the Chairman and to expedite whenever necessary the handling of the Company's business. The Committee periodically reviews the Corporate Governance of the Company and prepares recommendations for the Board.

The **Compensation Committee** includes a Chairperson, who is an independent and non-executive member of the Board, the other members are one Vice Chairman and a minimum of two other non-executive members of the Board of Directors. All members are independent. The Compensation Committee draws up the principles for remuneration of the members of the Board and submits them to the Board for approval. It oversees and discusses the remuneration principles for the Company and the Group. In addition, it proposes the remuneration of the Chairman, the CEO and approves the individual remunerations of the members of the Executive Board. It reports on its decisions to the Board and keeps the Board updated on the overall remuneration policy of the Group.

The **Nomination Committee** includes a Chairperson, who is an independent and non-executive member of the Board; the other members are the Chairman of the Board of Directors and a minimum of two independent and non-executive members of the Board. The Nomination Committee establishes the principles for the selection of candidates to the Board, selects candidates for election or re-election to the Board and prepares a proposal for the Board's decision. The candidates to the Board must possess the necessary profiles, qualifications and experience to discharge their duties. Newly appointed Board members receive an appropriate introduction into the business and affairs of the Company and the Group. If required, the Nomination Committee arranges for further training. It reviews, at least annually, the indepen-

dence of the members of the Board and performs a self-evaluation of the Board.

The **Audit Committee** consists of a Vice Chairman, who chairs the Committee, and a minimum of two other members of the Board, excluding the CEO and any former member of the Executive Board. At least one member has to have recent and relevant financial expertise. In discharging its responsibilities, it has unrestricted access to the Company's management, books and records. The Audit Committee supports the Board of Directors in its supervision of financial control through a direct link to KPMG (external auditors) and the Nestlé Group Audit (corporate internal auditors). The Audit Committee's main duties include the following:

- to discuss Nestlé's internal accounting procedures
- to make recommendations to the Board of Directors regarding the nomination of external auditors to be appointed by the shareholders
- to discuss the audit procedures, including the proposed scope and the results of the audit
- to keep itself regularly informed on important findings of the audits and of their progress
- to oversee the quality of the internal and external auditing
- to present the conclusions on the approval of the Financial Statements to the Board of Directors
- to review certain reports regarding internal controls and the Group's annual risk assessment.

The Audit Committee regularly reports to the Board on its findings and proposes appropriate actions. The responsibility for approving the annual Financial Statements remains with the Board of Directors.

3.5.3 Work methods of the Board of Directors and its Committees

The Board meets as often as necessary, at least quarterly, and on notice by the Chairman or by the person designated by him. In addition, the Board must be convened as soon as a Board member requests the Chairman for a meeting.

Meetings held in 2008:	Frequency	Average duration (hours)
– Board of Directors of Nestlé S.A.	10 times	3:00
– Chairman's and Corporate Governance Committee	8 times	3:00
– Compensation Committee	4 times	1:30
– Nomination Committee	4 times	1:30
– Audit Committee	4 times	2:00

The Board reserves one full day per year to discuss the strategic long-term plan of the Company. In addition, every year the Board visits one operating company for 3 to 5 days, in 2008 Nestlé in India. The average attendance at the Board meetings was over 99%. Board meetings, with the exception of certain *in camera* sessions, are attended by all members of the Executive Board. In addition, certain members of the Executive Board and senior management participate in certain Committee meetings.

At each Board meeting the chairmen of the various committees report on their Committee's activities.

3.6 Definition of areas of responsibility

The governing bodies have responsibilities as follows:

3.6.1 Board of Directors

The Board of Directors is the ultimate governing body of the Company. It is responsible for the ultimate supervision of the Group. The Board attends to all matters which are not reserved to the Annual General Meeting or another governance body of the Company by law, the Articles of Association or specific Regulations issued by the Board of Directors.

The Board has the following main duties:

- a) the ultimate direction of the Company, in particular the conduct, management and supervision of the business of the Company, and the provision of necessary directions;
- b) the determination of the Company's organisation;
- c) the determination of accounting and financial control principles, as well as the principles of financial planning;
- d) the appointment and removal of the Chairman and the Vice Chairmen, of the Committee members and members of the Executive Board;
- e) the ultimate supervision of the Chairman and the members of the Executive Board, in particular with respect to their compliance with the law, the Articles of Association, the Board Regulations and instructions given from time to time by the Board;
- f) the preparation of the Management Report, the Annual General Meeting and execution of its resolutions;
- g) the notification of the court in the event of overindebtedness;
- h) the discussion and approval of:
 - the Group's long-term strategy and annual investment budget;
 - major financial operations;
 - any significant policy issue dealing with the Company's or the Group's general structure or with financial, commercial and industrial policy;
 - Corporate Governance Principles of the Company;
 - the review of and decision on any report submitted to the Board;
 - the Group's annual risk assessment.

3.6.2 Executive Board

The Board of Directors delegates to the CEO, with the authorisation to subdelegate, the power to manage the Company's and the Group's business, subject to law, the Articles of Association and the Board of Directors' Regulations.

The CEO chairs the Executive Board and delegates to its members individually the powers necessary for carrying out their responsibilities, within the limits fixed in the Executive Board's Regulations.

3.7 Information and control instruments vis-à-vis the Executive Board

The Board of Directors, on a regular basis, is informed on material matters involving the Company's and the Group's business. Members of the Executive Board attend the Board of Directors meetings and report on significant projects and events. Regular written reports are also provided. The Chairman and the CEO ensure the proper information flow between the Executive Board and the Board of Directors.

The Board of Directors receives regular reports from the Board's Committees, the Chairman, the CEO, as well as from the Executive Board. The minutes of Committee meetings are made available to the full Board. The Board pays a visit to a major market every year, where it meets members of senior management.

Furthermore, the Audit Committee reviews the financial performance and assesses the effectiveness of the internal and external audit processes as well as the internal risk management organisation and processes.

Members of the Executive Board and other senior management attend the Audit Committee meetings, except for certain *in camera* sessions.

Additional information and control instruments include:

The external auditors, KPMG (auditors of Nestlé S.A. and of the Consolidated Financial Statements of the Nestlé Group), who conduct their audit in compliance with Swiss law and in accordance with Swiss Auditing Standards and with International Standards on Auditing.

The Nestlé Group Audit function, the corporate internal auditors, which has a direct link to the Audit Committee. It comprises a unit of international auditors who travel worldwide, completing audit assignments.

Group Risk Services, the corporate risk management unit, providing assistance to all corporate entities with regard to risk management, loss prevention, claims handling and insurance. A top-level risk assessment is performed once a year for all businesses. For more information, please refer to Note 29 of the Consolidated Financial Statements of the Nestlé Group 2008.

Group Compliance and other risk and control-related functions provide additional guidance and oversight.

4. Executive Board

4.1 Members of the Executive Board

Name	Year of birth	Nationality	Education/Current function
Paul Bulcke	1954	Belgian	Economics and Business Administration CEO
Francisco Castañer	1944	Spanish	Economics EVP: Pharmaceutical & Cosmetic Products, Liaison with L'Oréal, Human Resources
Werner Bauer	1950	German	Chemical Engineering EVP: Chief Technology Officer: Innovation, Technology and R&D <i>Ad interim</i> : Head of Strategic Business Units, Marketing and Sales
Frits van Dijk	1947	Dutch	Economics EVP: Zone Asia, Oceania, Africa, Middle East
Luis Cantarell	1952	Spanish	Economics EVP: Zone USA, Canada, Latin America, Caribbean
José Lopez	1952	Spanish	Mechanical Engineering EVP: Operations, GLOBE
John Harris	1951	USA	Business Administration EVP: Nestlé Waters
Richard T. Laube	1956	Swiss/ American	Organisational Development and Evaluation Research EVP: Nestlé Nutrition
James Singh	1946	Canadian	Business Administration EVP: Finance and Control, Legal, IP, Tax, Global Nestlé Business Services
Laurent Freixe	1962	French	Marketing EVP: Zone Europe
Marc Caira	1954	Canadian	Marketing Deputy EVP: Nestlé Professional
David P. Frick	1965	Swiss	Law SVP: Corporate Governance, Compliance and Corporate Services

(EVP: Executive Vice President; SVP: Senior Vice President)

For complete information: please refer to individual CVs on www.nestle.com.

* Paul Polman and Lars Olofsson left the Company in September and December 2008, respectively.

4.2 Professional background and other activities and functions

Paul Bulcke

Please refer to point 3.2 above.

Francisco Castañer



Francisco Castañer joined Nestlé España in 1964, in marketing research, before being transferred to the Organisation Department at Nestlé's Headquarters in Switzerland. He returned to Spain in 1973 to become Head of the Infant and Dietetic Products Division in 1976 and Head of the Diversification Department in 1981. He was Alimentos Refrigerados SA (Nestlé Group) General Manager from 1982 to 1984 before serving two years as Nestlé España SA Deputy Managing Director and then Managing Director and Vice President of the Board from 1986 to 1996. Since June 1997, Francisco Castañer has been the Executive Vice President responsible for Nestlé Group's worldwide non-food business (including Alcon and Galderma Laboratories, and relations with L'Oréal), as well as being responsible for Human Resources and until December 2007 of Corporate Affairs.

As a representative of Nestlé, he serves as Chairman of the Supervisory Board of Nestlé España S.A. and as Chairman of Galderma Pharma S.A., Switzerland. Francisco Castañer is also Vice Chairman of Alcon Inc., Switzerland as well as Board member of L'Oréal S.A., France.

Werner Bauer



Werner Bauer began his career in 1975 as an Assistant Professor in Chemical Engineering at the University of Erlangen-Nürnberg. In 1980, he was appointed Professor in Chemical Engineering at the Technical University, Hamburg, and in 1985 he obtained the Directorship of the Fraunhofer Institute for Food Technology and Packaging and a position as Professor in Food Biotechnology, Technical University, Munich.

In 1990, Werner Bauer became Head of the Nestlé Research Center, Lausanne, moving on to become Head of Nestlé Research and Development in 1996. After serving as Technical Manager and then Market Head for Nestlé Southern and Eastern Africa Region, he moved to the position of Executive Vice President and Head of Technical, Production, Environment, Research and Development in 2002. In 2007, he was appointed Chief Technology Officer, Head of Innovation, Technology, Research and Development. As of November 2008, Werner Bauer was nominated, *ad interim*, Head of Strategic Business Units, Marketing and Sales.

As a representative of Nestlé, Werner Bauer also undertakes the following duties: Chairman of the Supervisory Board of Nestlé Deutschland AG; Board member of Alcon, Inc., Switzerland; Board member of L'Oréal S.A. in France; member of the Supervisory Board of Cereal Partners Worldwide, Switzerland; Vice Chairman for both Life Ventures S.A. and Nutrition-Wellness Venture AG, Switzerland; Chairman of Sofinol S.A. in Switzerland.

He is also a member of the Board of Trustees for the Bertelsmann Foundation in Germany, and is a Board member of the Swiss Society of Chemical Industries.

Frits van Dijk



Frits van Dijk joined Nestlé in 1970 as a sales representative for the UK before holding a series of positions in India and the Philippines from 1972 to 1979. He returned to Europe to work in Nestlé's Beverages Division before again returning to Asia in 1982 where he took on a number of portfolios and was appointed Managing Director of Nestlé Japan in 1995. In 2000, he was appointed Chairman and CEO of Nestlé Waters Worldwide (formerly Perrier Vittel S.A.), and in May 2005 he became Executive Vice President for Zone Asia, Oceania, Africa and Middle East.

Frits van Dijk represents Nestlé as a member of the Supervisory Board of Cereal Partners Worldwide, Switzerland, and is a Board member of Osem Investments Ltd., Israel; Quality Coffee Products Ltd., Thailand; Nestlé Central and West Africa Limited (Ghana); Nestlé (China) Ltd.; Nestlé (Malaysia) BHD.; Nestlé Pakistan Ltd. He is President Commissioner of both PT Nestlé Indonesia and PT Nestlé Indofood Citarasa Indonesia.

Luis Cantarell



In 1976, Luis Cantarell joined Nestlé España S.A. and was appointed Head of Coffee Marketing in 1987 and later Head of the Nutrition Division of Nestlé Spain. In 1994, he transferred to Nestlé's Headquarters, taking worldwide responsibility for Coffee Marketing within the Coffee & Beverages Strategic Business Unit. He returned to Spain in 1996 as Division Manager. From 1998 to 2001, he was Managing Director of Nestlé Portugal S.A., and in 2001 was nominated Senior Vice President in charge of the Group's Nutrition Strategic Business Division. In 2003, he was appointed Deputy Executive Vice President, before taking the position in November 2005 as Executive Vice President, Nestlé S.A., in charge of Zone Europe (until 1 November 2008).

As of September 2008, Luis Cantarell was appointed Executive Vice President for Zone Americas.

As a representative of Nestlé, Luis Cantarell serves as Chairman of both Nestlé Brazil Ltda. and Nestlé Chile S.A. He is also Co-Chairman of the Supervisory Board of Dairy Partners Americas (Switzerland and New Zealand) and is a member of the Supervisory Board of Cereal Partners Worldwide, Switzerland.

In addition, Luis Cantarell is a Board member of the Swiss-Latin American Chamber of Commerce and Treasurer of the Swiss-American Chamber of Commerce.

José Lopez



José Lopez joined Nestlé in 1979 as Engineering Trainee. From 1983 to 1995, he completed various technical assignments in Spain, USA, Japan and France. In 1995, he was appointed Technical Manager of the Oceania Region, becoming in 1997 the Operations Director responsible for Technical, Supply Chain and Exports. In 1999, José Lopez became Market Head responsible for the Malaysian/Singaporean Region; in 2003, he was appointed Market Head of Nestlé Japan. As Executive Vice President of Operations since 2007, José Lopez is responsible for Procurement, Manufacturing, Supply Chain, Quality Management, Health & Safety, Environment and Engineering. As of 2008, he is also in charge of GLOBE.

José Lopez is also a member of the Executive Board of the Global Commerce Initiative (GCI) in Belgium, and a member of the Management Board of GS1 (formerly EAN International) in Belgium.

John J. Harris



John J. Harris began his career in 1974 as a Marketing Management Trainee at Carnation Company in the United States (acquired by Nestlé in 1985). From 1974 to 1987, John J. Harris held various positions in both Friskies PetCare and Carnation Products Division. In 1987, he was promoted to Vice President and General Manager of the Carnation Products Division.

In 1997, he was transferred to the Friskies PetCare Division as Vice President and General Manager and was instrumental in Friskies PetCare's acquisition of Alpo Pet Foods, announced in January 1995. In January 1997, John J. Harris was named Senior Vice President of Nestlé S.A. in Vevey responsible for the Nestlé Worldwide PetCare Strategic Business Unit. In March 1999, he returned to Nestlé USA as President of Friskies PetCare Company. In early 2001, he was nominated Chief Worldwide Integration Officer following the acquisition of Ralston Purina Company.

He was nominated Chief Executive Officer of Nestlé Purina PetCare Europe in 2002 and received added responsibility for Asia, Oceania and Africa in 2005.

Effective December 2007, John J. Harris was appointed Executive Vice President of Nestlé S.A. and Chairman and Chief Executive Officer of Nestlé Waters.

Richard T. Laube



From 1980 to 1986, Richard T. Laube was a brand manager for Procter & Gamble, firstly in Geneva, Switzerland, and then in Cincinnati, USA. In 1987, he moved to Osaka, Japan, as Paper Brands Marketing Director for P&G Far East Inc. and then to Germany in 1992 as General Manager and Vice President of P&G Pharmaceutical, Deutschland. After three years as Managing Director of P&G do Brasil, Richard T. Laube became President of Roche Consumer Health in 1999, and was appointed a member of the Roche Corporate Executive Committee in 2001.

Richard T. Laube joined Nestlé S.A. in April 2005 and became Deputy Executive Vice President, Corporate Business Development, and in November 2005 was appointed Deputy Executive Vice President and CEO of Nestlé Nutrition. As of January 2008, Richard T. Laube has been promoted Executive Vice President of Nestlé Nutrition.

Richard T. Laube also represents Nestlé as Chairman of both Life Ventures S.A. and Nutrition-Wellness Venture AG in Switzerland. In addition, he is Chairman of the wholly-owned Jenny Craig affiliates and Chairman of the Gerber Life Insurance Company.

Richard T. Laube serves on the Board of Logitech International S.A.

James Singh



James Singh joined Nestlé Canada, Inc. in 1977 as a Financial Analyst. In 1980, he became Manager Financial Analysis and Planning, moving on to Director of Finance Food Services and then Vice President Finance and Treasurer. In 1993, James Singh was appointed Senior Vice President Finance before taking his position as Executive Vice President and Chief Financial Officer of Nestlé Canada, Inc. in 1995. In 2000, he transferred to Nestlé's International Headquarters as Senior Vice President in charge of Mergers & Acquisitions, Joint Ventures, Divestments, Corporate Real Estate and Corporate Venturing Investments as well as for special strategic corporate projects. As of January 2008, James Singh has been appointed Executive Vice President and Chief Financial Officer with responsibility for Finance and Control, Legal, Intellectual Property and Tax departments as well as the Global Nestlé Business Services.

As a representative of Nestlé, James Singh is Chairman of Corporate Real Estate Worldwide S.A. and of Nestlé Capital Advisers S.A.; he is a Board member of both Life Venture S.A. and Nutrition Wellness Venture AG as well as of Alcon Inc. in Switzerland.

Laurent Freixe



Laurent Freixe joined Nestlé France in 1986 and got increasing responsibilities in the field of sales and marketing. In 1999, he became a member of the Management Committee and has been nominated Head of the Nutrition Division. In 2003, Laurent Freixe became Market Head of Nestlé Hungary. In January 2007, he was appointed Market Head of the Iberian Region taking responsibility for Spain and Portugal in 2007. As of November 2008, Laurent Freixe has been serving as Executive Vice President in charge of Zone Europe.

As a representative of Nestlé, he is Chairman of Nestlé Entreprises SAS in France, Nestlé Suisse S.A. and Société des Produits Nestlé S.A. in Switzerland as well as Board member of Lactalis Nestlé Produits Frais SAS in France and member of the Supervisory Board of Cereal Partners Worldwide, Switzerland.

In addition, Laurent Freixe is a member of the Foreign Investment Advisory Council of Russia, a Board member of Association des Industries de Marque (AIM) in Belgium, member of the Liaison Committee with the CIAA and member of the Executive Board of ECR Europe in Belgium.

Marc Caira



Marc Caira started at Nestlé Canada in 1977. In 1986, he was appointed Regional Sales Vice President and then, in 1990, Vice President FoodServices, eventually serving as President of FoodServices & Nescafé Beverages for Nestlé Canada from 1997 to 2000.

In October 2000, Marc Caira joined Parmalat Canada and became President and CEO of Parmalat North America in 2004.

In May 2006, Marc Caira returned to Nestlé and was appointed Deputy Executive Vice President in charge of FoodServices Strategic Business Division which becomes Nestlé Professional, a globally managed business unit, in 2009.

David P. Frick



David P. Frick began a legal career in 1991 with a clerkship in the Meilen District Court in Zurich and as an assistant to the Banking Law Chair at Zurich University Law School.

From 1994, he was an attorney in the International Corporate and Litigation practice groups of Cravath, Swaine & Moore, the New York law firm, before becoming Group General Counsel and Managing Director of Credit Suisse Group, Zurich, in 1999. In 2003, David P. Frick was appointed as a Member of the Executive Board at Credit Suisse Group and served as the company's Head of Legal and Compliance.

David P. Frick joined Nestlé S.A. in 2006 and serves as Senior Vice President, Corporate Governance, Compliance and Corporate Services.

He is a member of the Board of Economiesuisse and chairs its Legal Commission. He also represents Nestlé at SwissHoldings and serves on the SIX Admission Board, the Committee on Extraterritoriality for the International Chamber of Commerce in Paris and the Legal Committee for the Swiss-American Chamber of Commerce.

4.3 Management contracts

There are no management contracts with third parties at Nestlé.

5. Compensations, shareholdings and loans

Please refer to the Compensation Report, Appendix 1 of this document.

6. Shareholders' participation

6.1 Voting rights and representation restrictions

6.1.1 All voting rights restrictions, along with an indication of statutory group clauses and rules on granting exceptions, particularly in the case of institutional voting rights representatives

Only persons entered in the share register as shareholders with voting rights may exercise the voting rights or the other rights related thereto (art. 5 par 2 of the Articles of Association).

No person may exercise, directly or indirectly, voting rights, with respect to own shares or shares represented by proxy, in excess of 5% of the share capital as recorded in the commercial register.

Legal entities that are linked to one another through capital, voting rights, management or in any other manner, as well as all natural persons or legal entities achieving an understanding or forming a syndicate or otherwise acting in concert to circumvent such a limit shall be counted as one shareholder (art. 11 par. 2 of the Articles of Association; see art. 11 par. 3 of the Articles of Association, which set out exceptions to this voting restriction).

In order to permit the exercise of voting rights in respect of shares deposited with banks, the Board of Directors may grant exceptions to certain banks to vote shares deposited by their clients which in aggregate are in excess of 5% of the share capital (art. 11 par. 4 of the Articles of Association).

In order to facilitate trading of the shares on the stock exchange, the Board of Directors has issued regulations authorising certain nominees to exceed the 5% limit to be registered as nominees with voting rights. The responsibility for disclosure of beneficial owners and their holdings resides with the nominees registered in the share register.

6.1.2 Reasons for granting exceptions in the year under review

In order to permit the exercise of voting rights in respect of shares deposited with banks, the Board of Directors has granted exceptions to certain banks to vote shares deposited by their clients.

In order to facilitate trading of the shares on the Stock Exchange, the Board of Directors has authorised certain nominees to exceed the 5% limit to be registered as nominees with voting rights.

6.1.3 Procedure and conditions for abolishing statutory voting rights restrictions

A resolution to amend the provisions of the Articles of Association relating to (i) restrictions on the exercise of voting rights and the change or removal of such restrictions, or (ii) the limitation on registration or the limitation on voting rights and the change or removal of such limitations requires a majority of two thirds of the shares represented and the absolute majority of the nominal value represented at the General Meeting (art. 13 of the Articles of Association). See also art. 11 par. 4 of the Articles of Association.

6.1.4 Statutory rules on participating in the General Meeting of shareholders if they differ from applicable legal provisions

There are no restrictions to the legal regime provided by Swiss Law. Shareholders with voting rights may have their shares represented by the proxy of their choice.

6.2 Statutory quorums

Please refer to art. 13 of the Articles of Association.

6.3 Convocation of the General Meeting of shareholders

Nestlé S.A. statutory rules (art. 7 to 9 of the Articles of Association) do not differ from applicable legal provisions. An Extraordinary General Meeting requested by one or more shareholders whose combined holdings represent at least 10% of the share capital as recorded in the commercial register must be held as promptly as practicable following such request (art. 8 par. 2 of the Articles of Association).

6.4 Agenda

One or more shareholders with voting rights whose combined holdings represent at least 0.15% of the share capital as recorded in the commercial register may request that an item be included in the agenda of the General Meeting by making the request in writing to the Board of Directors at the latest 45 days before the meeting and specifying the agenda items and the proposals made (art. 9 par. 2 and 3 of the Articles of Association).

6.5 Inscriptions into the share register

The relevant date to determine the shareholders' right to participate in the General Meeting on the basis of the registrations appearing in the share register is set by the Board of Directors in the invitation to the General Meeting.

7. Change of control and defence measures

7.1 Duty to make an offer

Nestlé S.A. does not have a provision on opting out or opting up in the Articles of Association.

Thus, the provisions regarding the legally prescribed threshold of 33 $\frac{1}{3}$ % of the voting rights for making a public takeover offer set out in art. 32 of the Swiss Stock Exchange Act are applicable.

7.2 Clauses on change of control

There are no such agreements.

8. Auditors

8.1 Duration of the mandate and term of office of the lead auditor

On 22 May 1993, Klynveld Peat Marwick Goerdeler SA (referred to as KPMG in this report) was first appointed as auditor of Nestlé S.A.

On 10 April 2008 at the 141st Annual General Meeting of Shareholders of Nestlé S.A., KPMG was reappointed as auditor of Nestlé S.A. and of the Consolidated Financial Statements of the Nestlé Group for a term of office of one year.

The audit report is signed jointly by two KPMG partners on behalf of KPMG. The first year that Mr M. Baillache, in his capacity as auditor in charge, signed the Nestlé S.A. and the Consolidated Financial Statements of the Nestlé Group was for the year ending 31 December 2006.

8.2 Auditing fees

The total of the auditing fees paid to the auditors for 2008 amounts to CHF 54 million, of which KPMG, in their capacity as Group auditors, received CHF 50 million.

8.3 Additional fees

The total of the fees paid to the auditors for 2008 related to additional services amounts to CHF 12 million, of which KPMG received CHF 4 million.

8.4 Supervisory and control instruments pertaining to the audit

KPMG presents to the Audit Committee an overview of issues found during the interim audit, a detailed report on the conduct of the 2008 financial statements audit, the findings on significant financial accounting and reporting issues together with the findings on the internal control system.

In 2008, KPMG participated in four Audit Committee meetings at the end of which they met with the Audit Committee without the Group's management being present.

The Group's internal auditors met four times with the Audit Committee. In addition, the head of internal audit regularly met with the chairman of the Audit Committee for interim updates.

The Board of Directors reviews annually the selection of the auditors in order to propose their appointment to the Annual General Meeting of Nestlé S.A. The Audit Committee assesses the effectiveness of the work of the auditors in accordance with Swiss law. The lead auditor is rotated every seven years in accordance with Swiss law.

The Group and KPMG have agreed on clear guidelines as to professional services which it is appropriate for KPMG to provide. These services include due diligence on mergers, acquisitions and disposals and tax and business risk assurance. These guidelines ensure KPMG's independence in their capacity as auditors to the Group. As a result of Alcon's listing on the NYSE, KPMG is required to maintain its independence from the Group in accordance with U.S. standards. KPMG monitors its independence throughout the year and confirms its independence to the Audit Committee annually.

9. Information policy

Investor Relations – guiding principles

Nestlé is committed to managing an open and consistent communication policy with shareholders, potential investors and other interested parties. The objective is to ensure that the perception of those parties about the historical record, current performance and future prospects of Nestlé is in line with management's understanding of the actual situation at Nestlé. The guiding principles of this policy are that Nestlé gives equal treatment to shareholders in equal situations, that any price-sensitive information is published in a timely fashion and that the information is provided in a format that is as full, simple, transparent and consistent as possible.

Methodology

Nestlé produces a detailed Management Report annually, which reviews the business. It also provides detailed audited financial statements for the year under review, prepared according to the International Financial Reporting Standards (IFRS). This document is complemented by the Half-yearly Report.

Nestlé publishes its full-year and half-year results, and its first-quarter and nine-months' sales figures; it also publishes press releases at the time of any potentially price-sensitive event, such as significant acquisitions and divestments, joint venture agreements and alliances. Major announcements, such as results or corporate activity, are accompanied by a presentation which is broadcast "live" on the Internet and which anyone can choose to access, whether or not that person is a shareholder.

Furthermore, Nestlé has an active investor relations programme, including both group meetings and one-to-one meetings. This includes the Annual General Meeting, as well as presentations at the time of its full-year and half-year results. The Group also has a programme of roadshows, which take place in most financial centres around the world, and hosts themed events for institutional investors and investment analysts at which members of line management give an overview of their particular areas of responsibility. These meetings focus either on recently announced financial results, recent corporate activity or the longer-term strategy of the Group; they are not an occasion for the disclosure of new information which might encourage an investment decision.

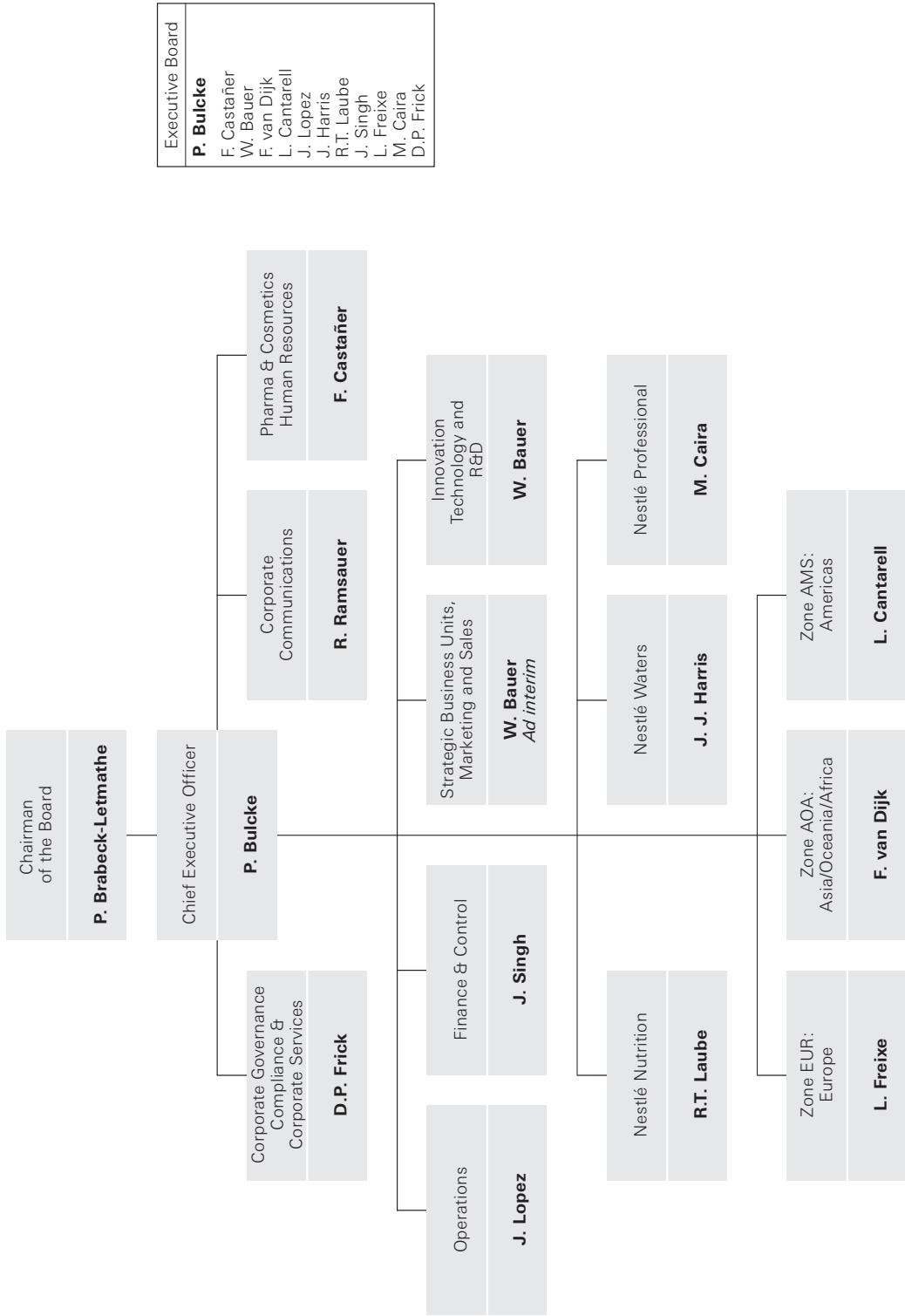
The Company utilises the World Wide Web (www.nestle.com) to ensure a rapid and equitable distribution of information. Nestlé does not just rely on people visiting the site to be updated on the latest developments within the Group: anyone can sign up on the site to be alerted automatically by Nestlé whenever there is a change to the investor relations Web site; also press releases are distributed to major wire and news services. There are links to non-financial information that may be of interest to investors, including areas such as the environment, sustainability, the Nestlé Corporate Business Principles and the Nestlé Human Resources Policy.

The Nestlé Investor Relations Department can be contacted, either through the Web site, or by telephone, fax, e-mail or letter.

Contact

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General Organisation of Nestlé S.A.
31 December 2008



Executive Board
P. Bulcke
F. Castañer
W. Bauer
F. van Dijk
L. Cantarell
J. Lopez
J. Harris
R.T. Laube
J. Singh
L. Freixe
M. Caira
D.P. Frick

Compensation Report 2008

Introduction

Executive Compensation continues to be a widely-debated subject.

Politicians, regulatory authorities, shareholders and the general public have developed a high-level of awareness on the matter and new legislation is expected to be enacted in the coming years.

Last year, we published for the first time a comprehensive Compensation Report in order to provide more transparency on the compensation systems for the members of the Board of Directors and the Executive Board. The good reception of the Compensation Report 2007 has encouraged us to continue our strive towards providing more information on the compensation of the two highest governing bodies of our Company.

The Compensation Report 2008, as last year's report, is an integrated part of the annual Corporate Governance Report of Nestlé. It was prepared in accordance with the "Swiss Code of Best Practice" and in particular its ten recommendations relating to compensation. As last year, the Compensation Report will be submitted to a vote by the Annual General Meeting. This year we will submit it to a separate advisory vote by the shareholders.

In view of the turbulent economical and financial situation, it is particularly important to ensure that we can retain the best performing executives in our Company. Adequate and competitive compensation is only one factor among many others to keep these contributors motivated to continue with their commitment towards performance and success. Nevertheless, we have to make sure that we have a Compensation Policy that is aligned with our determination to successfully navigate through these challenging times.



Peter Brabeck-Letmathe
Chairman of the Board

Compensation Committee (CC)

The CC is governed by the Compensation Committee Charter. The Committee is made up of the Chairperson who is an independent and non-executive member of the Board, one of the Vice Chairmen of the Board and two other non-executive Members of the Board.

The members of the CC and its Chairperson are appointed by the Board of Directors for a period of one year.

On 31 December 2008, the composition of the CC was as follows:

• Chairman:	Mr Daniel Borel
• Members:	Mr Andreas Koopmann
	Edward George (Lord George)
	Mr Jean-René Fourtou

The CC met four times during 2008.

Governance

The Board of Directors has the overall responsibility for defining the compensation principles used in the Group. It approves the compensation of the Chairman of the Board, the CEO and the Executive Board as a whole.

The governance for setting the compensation of the members of the Board of Directors and the Executive Board is defined as follows:

Compensation of	Recommended by	Approved by
Chairman of the Board, CEO and Executive Board as a whole	Compensation Committee	Board of Directors ^(a)
Non-executive members of the Board of Directors	Compensation Committee	Board of Directors ^(b)
Members of the Executive Board	CEO together with Chairman	Compensation Committee

(a) Chairman not voting on own remuneration.

(b) Members not voting on own remuneration to the extent that Committee fees are concerned.

Compensation 2008 for the members of the Board of Directors

Board membership fees and allowances

With the exception of the Chairman and the CEO, each member of the Board of Directors receives a Board membership fee of CHF 280 000 and an Expense Allowance of CHF 15 000. These figures remained flat compared to last year.

Members of a Board committee receive the following additional fees:

	Chair	Members
Chairman's and Corporate Governance Committee	N/A ^(a)	CHF 200 000
Compensation Committee	CHF 100 000	CHF 40 000
Nomination Committee	CHF 100 000	CHF 40 000
Audit Committee	CHF 150 000	CHF 100 000

(a) The Chairman and the CEO receive no Committee fee.

Committee membership on 31 December 2008

	Chairman's and Corporate Governance Committee	Compensation Committee	Nomination Committee	Audit Committee
Peter Brabeck-Letmathe	• (Chair)		•	
Paul Bulcke	•			
Andreas Koopmann	•	•		
Rolf Hänggi	•		•	• (Chair)
Edward George (Lord George)	•	•		
Kaspar Villiger			• (Chair)	•
Daniel Borel		• (Chair)		
Jean-Pierre Meyers				•
André Kudelski				•
Jean-René Fourtou		•		
Steven G. Hoch			•	

The above fees and allowances cover the period between the Annual General Meeting 2008 and the Annual General Meeting 2009. Board membership and the Committee fees are paid 50% in cash and 50% in Nestlé S.A. shares, which are subject to a two-year blocking period.

The number of Nestlé S.A. shares is determined by taking the ex-dividend closing price of the Nestlé S.A. share at the date of the payment of the dividend during the respective financial year, discounted by 11% to account for the blocking period of two years. In 2008, the value was CHF 45.079 (following 1-for-10 share split on 30 June 2008).

Summary of compensation

	Cash in CHF ^(a)	Number of shares ^(b)	Discounted value of shares in CHF ^(c)	Total remuneration
Peter Brabeck-Letmathe, Chairman ^(d)	see details below			13 945 163
Paul Bulcke, Chief Executive Officer ^(d)	–	–	–	–
Andreas Koopmann, 1st Vice Chairman	275 000	5 140	231 706	506 706
Rolf Hänggi, 2nd Vice Chairman	350 000	6 620	298 423	648 423
Edward George (Lord George)	275 000	5 140	231 706	506 706
Kaspar Villiger	255 000	4 740	213 674	468 674
Daniel Borel	205 000	3 760	169 497	374 497
Jean-Pierre Meyers	205 000	3 760	169 497	374 497
André Kudelski	205 000	3 760	169 497	374 497
Carolina Müller-Möhl	155 000	2 770	124 869	279 869
Günter Blobel	155 000	2 770	124 869	279 869
Jean-René Fourtou	175 000	3 160	142 450	317 450
Steven G. Hoch	175 000	3 160	142 450	317 450
Naina Lal Kidwai ^(e)	155 000 ^(e)	2 770 ^(e)	124 869 ^(e)	279 869 ^(e)
Beat Hess	155 000	2 770	124 869	279 869
Total for 2008	2 740 000	50 320	2 268 376	18 953 539
Total for 2007	3 045 000	58 750	2 525 486	5 570 486

Peter Brabeck-Letmathe acted as Chairman and CEO up to 12 April 2008 and then as an active non-executive Chairman for the rest of the year. As such, he is entitled to a salary, a Short-Term Bonus payable in Nestlé S.A. shares, which are blocked for three years, and Long-Term Incentives in the form of stock options. His total compensation for 2008 was:

	Number	Value in CHF
Salary		2 116 667
Short-Term Bonus (discounted value of shares)	109 671	3 732 138
Restricted Stock Units (fair value at grant)	16 000	772 800
Management Stock Options (Black-Scholes value at grant)	400 000	3 124 000
Total compensation 2008		9 745 605
Other benefits ^(f)		4 199 558
Total		13 945 163

Up to April 2008, the Company also made a contribution of CHF 175 980 towards future pensions benefits in line with Nestlé's Pension Benefit Policy (2007: CHF 1 252 600).

(a) The cash amount includes the expense allowance of CHF 15 000.

(b) After share split 1:10 on 30 June 2008.

(c) Nestlé S.A. shares received as part of the Board membership and the Committee fees are valued at the ex-dividend closing price of the Nestlé S.A. share at the dividend payment's date, discounted by 11% to account for the blocking period of two years.

(d) The Chairman and the Chief Executive Officer receive no Board membership or Committee fees and no expense allowance.

(e) Naina Lal Kidwai has waived her compensation (cash fees and shares) other than the expense allowance of CHF 15 000, as per requirements of the Reserve Bank of India. Nestlé S.A. has decided instead to make a contribution to charity.

(f) Includes long-service retirement awards in line with the Company's policy and a special share award granted by the Board of Directors in February 2008.

Share and stock option ownership of the non-executive members
of the Board of Directors and closely related parties on 31 December 2008

	Number of shares held ^(a)	Number of options held ^(b)
Peter Brabeck-Letmathe, Chairman ^(c)	1 315 884	3 606 143
Andreas Koopmann, 1st Vice Chairman	52 700	–
Rolf Hänggi, 2nd Vice Chairman	51 840	–
Edward George (Lord George)	38 000	–
Kaspar Villiger	42 840	–
Daniel Borel	166 270	–
Jean-Pierre Meyers	1 415 110	–
André Kudelski	37 610	–
Carolina Müller-Möhl	20 440	–
Günter Blobel	13 580	–
Jean-René Fourtou	10 750	–
Steven G. Hoch	150 290	–
Nāina Lal Kidwai	3 790	–
Beat Hess	3 390	–
Total	3 322 494	3 606 143
Total as at 31 December 2007	2 141 760	–

(a) Including blocked shares.

(b) The subscription ratio is one option for one Nestlé S.A. share.

(c) In 2007, the share and stock options ownership of Peter Brabeck-Letmathe was reported under the Executive Board's section.

Loans

There are no loans outstanding to non-executive members of the Board of Directors.

Principles of compensation for members of the Executive Board

Principles

The compensation programmes for members of the Executive Board are based on three major objectives:

Pay for performance

As a direct reflection of this objective, the Total Direct Compensation package for the members of the Executive Board is made up of a fixed Annual Base Salary and a variable part, which is a combination of a Short-Term (Annual) Bonus and Long-Term Incentives. For the members of the Executive Board, the variable and performance-related part makes up between 50% and 80% of the Total Direct Compensation.

Alignment with shareholders' interests

Members of the Executive Board can choose to take part or all of their Short-Term Bonus in the form of Nestlé S.A. shares instead of cash. In addition, all Long-Term Incentives are provided in the form of restricted stock units or options on Nestlé S.A. shares. All share-based elements have restriction periods of three years. This way of compensating underlines the close linkage between the interest of the members of the Executive Board and the shareholders.

Compensation to be internationally competitive

To ensure that the compensation packages for the members of the Executive Board are internationally competitive, the CC has decided to take as the primary benchmark the Dow Jones Euro Stoxx 50 companies (without financial services). As secondary benchmarks, it uses a group of major European companies in the Fast Moving Consumer Goods Sector and the Swiss Market Index (SMI). In 2008, Nestlé used the services of Towers Perrin, a reputed international compensation consultancy, to provide a detailed market comparison. The results of this study confirmed that Total Direct Compensation is broadly in line with the market median, adjusted for the size of Nestlé.

Elements of Executive Board Compensation

The total compensation package consists of the following elements:

1. Annual Base Salary

The Annual Base Salary is the foundation of the total compensation. It also serves as the basis for determining the second element, the Short-Term Bonus, and the third element, the Long-Term Incentives. It is reviewed annually by the CC based upon the individual contribution and with the objective to keep it competitive against our chosen peer groups.

2. Short-Term Bonus

The Short-Term Bonus or annual bonus is expressed as a bonus target, which is a percentage of the Annual Base Salary. The objectives to be reached are set at the beginning of each year; they include collective as well as individual objectives. Collective objectives are Nestlé Group operational objectives such as organic growth, real internal growth (RIG), EBIT performance, a certain level of capital expenditure and others. Individual objectives are determined by the CEO for each member of the Executive Board. In case an executive reaches all objectives in full, the bonus payout will correspond to the targeted level. If one or more objectives are not reached, the bonus is reduced.

For the CEO, 100% of the target is made up by Nestlé Group objectives. For the other members of the Executive Board, 30% of the target is allocated to Nestlé Group objectives and 70% is determined on the basis of individual or other collective objectives (e.g. objectives of the Zone, Globally Managed Business or Function).

The maximum of the bonus payout can reach 130% of the target for the CEO and 150% of the target for the other members of the Executive Board. There is no guarantee for the payout of a minimum bonus.

Members of the Executive Board can elect to receive part or all of their bonus in the form Nestlé S.A. shares instead of cash. Nestlé S.A. shares taken instead of cash are subject to a three-year blocking period. For purposes of the conversion of cash into shares, the conversion value of a Nestlé S.A. share is determined as the average closing price of the last ten trading days of January of the year of the payment of the bonus (CHF 40.53). The value of these shares is determined by taking the conversion value discounted by 16.038% to account for the three-year blocking period.

3. Long-Term Incentives

Each year, members of the Executive Board are eligible to receive Long-Term Incentives in the form of stock options under the Management Stock Option Plan (MSOP) and restricted stock units under the Restricted Stock Unit Plan (RSUP). For this purpose, a target value is set at the time of the grant and the respective number of options and restricted stock units is then allocated to each member of the Executive Board.

The **Management Stock Option Plan (MSOP)** provides non-tradable options on Nestlé S.A. shares. The exercise price for the stock options corresponds to the average Nestlé S.A. share price of the last ten trading days preceding the grant date. Upon vesting, the options have an exercise period of four years before they expire. Each option gives the right to purchase one Nestlé S.A. share at the cost of the exercise price during the exercise period. The value of an option is determined by applying the Black and Scholes model.

The **Restricted Stock Unit Plan (RSUP)** provides units which entitle participants to receive freely disposable Nestlé S.A. shares at the end of the three-year restriction period.

The value of an RSU under the grant 2008 is determined by taking the closing Nestlé S.A. share price at the trading day preceding the grant date.

4. Other benefits

The Company limits other benefits to a minimum. Typical elements are a car allowance (there are no company cars provided to the members of the Executive Board), a contribution towards health insurance premiums, as offered to other employees as well as long-service awards. Those Executive Board members who have been transferred to Switzerland from other Nestlé locations can receive benefits in line with the Nestlé Corporate Expatriation Policy.

5. Pension benefits

Executive Board members domiciled in Switzerland are affiliated to the Nestlé Pension Plan in Switzerland like all other employees. The Plan is designed as a defined contribution plan with a retirement pension objective, expressed as a percentage of the Annual Base Salary.

This means that the pensionable earnings include the Annual Base Salary, but not the variable compensation (Short-Term Bonus or Long-Term Incentives). Any part of the Annual Base Salary which exceeds the ceiling prescribed by the Swiss Pension Law is covered directly by the Company.

Share Ownership Policy

The Company does not have a share ownership policy requiring members of the Executive Board to own Nestlé S.A. shares.

Loans

The Company does not, as a rule, grant loans, except that it may provide advances free of interest and generally repayable over a three-year period to members of the Executive Board who have been transferred to Switzerland from other Nestlé locations in line with the Nestlé Corporate Expatriation Policy.

Contracts of Employment and Severance Payments

Members of the Executive Board are normally subject to a generally applicable notice period of six months. During this time, unless there was termination for cause, entitlement to Annual Base Salary and pro-rated Short-Term Bonus will continue. There are no severance or change of control provisions ("Golden Parachutes").

Benchmarks

See above principles of compensation for members of the Executive Board.

Compensation 2008 for members of the Executive Board

The total compensation paid to members of the Executive Board in 2008 was CHF 36 220 962.

Compensation for members of the Executive Board (in CHF)

	2008	2007
Annual Base Salary	13 009 167	14 018 333
Short-Term Bonus (cash)	7 532 152	5 958 387
Short-Term Bonus (discounted value of Nestlé S.A. share)	3 428 216	9 752 863
Restricted Stock Units (fair value at grant)	7 399 560	11 249 575
Management Stock Options (Black-Scholes value at grant)	3 897 190	7 810 110
Other benefits	954 677	831 585
Total	36 220 962	49 620 852

The Company also made contributions of CHF 4 901 953 towards future pension benefits of the Executive Board's members in line with Nestlé's Pension Benefit Policy described above (CHF 5 146 990 in 2007).

The above compensation table includes the following:

	2008	2007
Number of Nestlé S.A. shares granted	100 741	245 170
Number of Restricted Stock Units granted under the RSUP	153 200	242 500
Number of stock options granted under the MSOP	499 000	1 155 000

In 2007, the compensation for members of the Executive Board included Peter Brabeck-Letmathe's as Chairman and CEO. In 2008, his remuneration is shown under the Board of Directors's section.

Explanations

- Mr Laurent Freixe was appointed member of the Executive Board effective 1 November 2008.
- Mr Paul Polman's employment with the Company ended on 30 September 2008.
- Mr Lars Olofsson's employment with the Company ended on 31 December 2008.
- On 31 December 2008, the Executive Board was made up of twelve members.
- Other benefits include car allowance, contribution towards health insurance premiums and expatriate benefits (if applicable).
- RSUs 2008 are disclosed at the fair value based on the Nestlé S.A. share on 31 January 2008 adjusted for the restricted period of three years, which amounted to CHF 48.30.
- MSOs 2008 are disclosed at the Black Scholes value of the time of grant which corresponds to CHF 7.81.
- Nestlé S.A. shares received as part of the Short-Term Bonus are valued at the average closing price of the last ten trading days of January 2009, discounted by 16.038% to account for the three-year blocking period.
- Please also refer to Note 17 of the Consolidated Financial Statement of the Nestlé Group 2008.

Compensation for former members of the Executive Board

A total of CHF 192 200 was conferred during 2008 to two former members of the Executive Board (CHF 96 637 to one member in 2007).

Highest total compensation for a member of the Executive Board

In 2008, the highest total compensation for a member of the Executive Board was conferred to Paul Bulcke, Executive Vice President for Zone Americas up to 12 April 2008 and CEO since then.

		2008
	Number	Value (in CHF)
Annual Base Salary		1 800 000
Short-Term Bonus (cash)		1 977 150
Short-Term Bonus (discounted value of shares)	35 000	1 191 050
Restricted Stock Units (fair value at grant)	32 000	1 545 600
Management Stock Options (Black-Scholes value at grant)	185 000	1 444 850
Other benefits		28 380
Total		7 987 030

The Company also made a contribution of CHF 731 962 towards future pension benefits in line with Nestlé's Pension Benefit Policy described above.

In 2007, the highest total compensation for a member of the Executive Board was conferred to Peter Brabeck-Letmathe, Chairman and CEO (CHF 17 440 958).

Explanations

- Other benefits include a car allowance and a contribution towards health insurance premiums.
- RSUs 2008 are disclosed at the fair value based on the Nestlé S.A. share on 31 January 2008 adjusted for the restricted period of three years, which amounted to CHF 48.30.
- MSOs 2008 are disclosed at the Black Scholes value of the time of grant which corresponds to CHF 7.81.
- Nestlé S.A. shares received as part of the Short-Term Bonus are valued at the average closing price of the last ten trading days of January 2009, discounted by 16.038% to account for the three-year blocking period.
- Please also refer to Note 17 of the Consolidated Financial Statement of the Nestlé Group 2008.

Shares and stock options held by members of the Executive Board

Total number of stock options held on 31 December 2008 by members of the Executive Board

Grant date	Vesting date	Expiry date	Exercise price in CHF	Stock options outstanding
01.02.2008	01.02.2011	31.01.2015	47.380	499 000
01.02.2007	01.02.2010	31.01.2014	44.500	385 000
01.02.2006	01.02.2009	31.01.2013	37.950	328 750
01.02.2005	01.02.2008	31.01.2012	30.920	194 000
01.02.2004	01.02.2007	31.01.2011	32.910	535 000
01.02.2003	01.02.2006	31.01.2010	27.855	133 000
01.03.2002	01.03.2005	28.02.2009	36.735	40 000
Total				2 114 750

Shares and stock options ownership of the members of the

Executive Board and closely related parties on 31 December 2008

	Number of shares held ^(a)	Number of stock options held ^(b)
Paul Bulcke, Chief Executive Officer	67 810	435 000
Francisco Castañer	84 430	305 000
Werner Bauer	110 495	378 000
Frits van Dijk	52 630	405 000
Luis Cantarell	19 160	252 000
José Lopez	8 200	72 000
John J. Harris	430	32 000
Richard T. Laube	102 070	119 000
James Singh	7 000	42 000
Laurent Freixe ^(c)	5 200	–
Marc Caira	100	74 750
David P. Frick	2 080	–
Total	459 605	2 114 750
Total as at 31 December 2007 ^(d)	1 155 610	5 481 750

(a) Including shares subject to a three-year blocking period.

(b) The subscription ratio is one option for one Nestlé S.A. share.

(c) As from 1 November 2008.

(d) Including shares and stock options ownership of Peter Brabeck-Letmathe.

Loans to members of the Executive Board

On 31 December 2008, there were no loans outstanding to any member of the Executive Board.

Additional fees and remuneration

No additional fees and remunerations were conferred to any member of the Executive Board during 2008.

Articles of Association of Nestlé S.A.

As revised on 10 April 2008.

*Translation **

I. General

Article 1

Corporate name; Registered offices; Duration

- 1 Nestlé S.A. (Nestlé AG) (Nestlé Ltd.) (hereinafter "Nestlé") is a company limited by shares incorporated and organised in accordance with the Swiss Code of Obligations.
- 2 The registered offices of Nestlé are in Cham and Vevey, Switzerland.
- 3 The duration of Nestlé is unlimited.

Article 2

Purpose

- 1 The purpose of Nestlé is to participate in industrial, service, commercial and financial enterprises in Switzerland and abroad, in particular in the food, nutrition, health, wellness and related industries.
- 2 Nestlé may itself establish such undertakings or participate in, finance and promote the development of undertakings already in existence.
- 3 Nestlé may enter into any transaction which the business purpose may entail. Nestlé shall, in pursuing its business purpose, aim for long-term, sustainable value creation.

II. Share Capital

Article 3

Share capital

The share capital of Nestlé is CHF 383 000 000 (three hundred eighty three million Swiss francs) divided into 3 830 000 000 fully paid up registered shares with a nominal value of CHF 0.10 each.

Article 3^{bis}

Conditional share capital

- 1 The share capital of Nestlé may be increased in an amount not to exceed CHF 10 000 000 (ten million Swiss francs) by issuing up to 100 000 000 registered shares with a nominal value of CHF 0.10 each, which shall be

fully paid up, through the exercise of conversion rights and/or option rights granted in connection with the issuance by Nestlé or one of its subsidiaries of newly or already issued convertible debentures, debentures with option rights or other financial market instruments.

2 The shareholders have no preferential rights to subscribe for these new shares. The current owners of conversion rights and/or option rights shall be entitled to subscribe for the new shares.

3 The new shares shall be subject, as soon as they are issued following the exercise of conversion and/or option rights, to the restrictions set forth in art. 5.

4 The Board of Directors may limit or withdraw the right of the shareholders to subscribe in priority to convertible debentures, debentures with option rights or similar financial market instruments when they are issued, if:

- a) an issue by firm underwriting by a consortium with subsequent offering to the public without preferential subscription rights seems to be the most appropriate form of issue at the time, particularly in terms of the conditions for issue; or
- b) the financial market instruments with conversion or option rights are issued in connection with the financing or refinancing of the acquisition of an enterprise or parts of an enterprise or participations or new investments.

5 Any financial market instruments with conversion or option rights which the Board of Directors decides not to offer directly or indirectly for prior subscription to the shareholders shall be subject to the following conditions:

- a) Conversion rights may be exercised only for up to 15 years, and option rights only during 7 years from the date of issue of the relevant financial market instruments.
- b) The new shares shall be issued according to the applicable conversion or option conditions. The respective financial instruments must be issued at the relevant market conditions.

The issue of new shares upon exercise of option or conversion rights shall be made at conditions taking into account the market price of the shares and/or comparable instruments with a market price at the time of issuance of the relevant convertible debenture, debenture with option rights or similar financial market instrument.

**This is an unofficial translation. In case of doubt or differences of interpretation, the official French and German versions of the Articles of Association shall prevail over the English text.*

Article 4

Share certificates; Dematerialised shares

- 1 Nestlé shall issue registered shares or certificates covering several registered shares, which are issued in the name of the owner.
- 2 The certificates shall be signed by two members of the Board of Directors. Both signatures may be affixed in facsimile.
- 3 Nestlé may cease printing and supplying certificates. A shareholder shall however have the right to demand at any time that a certificate for his shares be printed and supplied at no cost.
- 4 Uncertificated shares and the rights attached to such shares but not represented by a certificate may only be transferred by written assignment. In order to be valid, the assignment must be notified to Nestlé.
- 5 Uncertificated shares and the rights attached thereto may be pledged only by way of written agreement and only in favour of the bank administering the shares for the shareholder.

Article 5

Share register

- 1 Nestlé shall maintain a share register showing the name and address of the holders or usufructuaries. Any change of address must be reported to Nestlé.
- 2 Only persons entered in the share register as shareholders with voting rights may exercise the voting rights or the other rights related thereto.
- 3 After the acquisition of shares, upon request of the shareholder to be recognised as such, any acquiring party shall be considered as a shareholder without voting rights, until it is recognised by Nestlé as a shareholder with voting rights. If Nestlé does not refuse the request to recognise the acquiring party within twenty days, the latter shall be deemed to be a shareholder with voting rights.
- 4 An acquirer of shares shall be recorded in the share register as a shareholder with voting rights provided he expressly declares to have acquired the shares in his own name and for his own account.
- 5 No person or entity shall be registered with voting rights for more than 5% of the share capital as recorded in the commercial register. This limitation on registration also applies to persons who hold some or all of their shares through nominees pursuant to this article. All of the foregoing does not apply in the case of the acquisition of an enterprise, or parts of an enterprise or participations through exchange of shares or in the cases provided in art. 685d par. 3 of the Swiss Code of Obligations.
- 6 The Board of Directors shall promulgate regulations relating to the registration of fiduciaries or nominees to ensure compliance with these Articles of Association.

- 7 Legal entities that are linked to one another through capital, voting rights, management or in any other manner, as well as all natural persons or legal entities achieving an understanding or forming a syndicate or otherwise acting in concert to circumvent the regulations concerning the limitation on registration or the nominees, shall be counted as one person or nominee within the meaning of paragraphs 4 and 5 of this article.
- 8 After hearing the registered shareholder or nominee, the Board of Directors may cancel, with retroactive effect as of the date of registration, the registration of such shareholder or nominee if the registration was effected based on false information. The respective shareholder or nominee shall be informed immediately of the cancellation of the registration.
- 9 The Board of Directors shall specify the details and promulgate the necessary regulations concerning the application of this art. 5. Such regulations shall specify the cases in which the Board or a corporate body designated by the Board may allow exemptions from the limitation on registration or the regulation concerning nominees.
- 10 The limitation on registration provided for in this article shall also apply to shares acquired or subscribed by the exercise of subscription, option or conversion rights.

III. Organisation of Nestlé

A. General Meeting

Article 6

Powers of the General Meeting

- 1 The General Meeting of shareholders is the supreme authority of Nestlé.
- 2 The following powers shall be vested in the General Meeting:
 - a) to adopt and amend the Articles of Association;
 - b) to elect and remove the members of the Board of Directors and the Auditors of Nestlé;
 - c) to approve the annual report and the consolidated financial statements;
 - d) to approve the annual financial statements as well as the resolution on the use of the balance sheet profit, in particular, the declaration of dividends;
 - e) to grant release to the members of the Board of Directors and the persons entrusted with management; and
 - f) to take all decisions which by law or under these Articles of Association are within the powers of the General Meeting.

Article 7

Annual General Meeting

The Annual General Meeting shall be held each year within six months of the close of the financial year of Nestlé. The meeting shall be convened by the Board of Directors.

Article 8

Extraordinary General Meeting

1 Extraordinary General Meetings shall be convened by the Board of Directors or, if necessary, by the Auditors, as well as in the other cases foreseen by law.

2 The Board of Directors shall, if so requested by a General Meeting or at the request in writing, specifying the items and proposals to appear on the agenda, of one or more shareholders with voting rights whose combined holdings represent at least one tenth of the share capital as recorded in the commercial register, convene an Extraordinary General Meeting. The Extraordinary General Meeting shall be held as promptly as practicable following such request.

Article 9

Notice of General Meetings; Agenda

1 Annual or Extraordinary General Meetings shall be convened by notice in the "Swiss Official Gazette of Commerce" not less than twenty days before the date fixed for the meeting. Shareholders may in addition be informed by ordinary mail.

2 The notice of a meeting shall state the items on the agenda and the proposals of the Board of Directors and of the shareholders who requested that a General Meeting be convened (art. 8 par. 2) or that items be included in the agenda (art. 9 par. 3).

3 One or more shareholders with voting rights whose combined holdings represent at least 0.15% of the share capital of Nestlé as recorded in the commercial register may request that an item be included in the agenda of a General Meeting. Such a request must be made in writing to the Board of Directors at the latest 45 days before the meeting and shall specify the agenda items and the proposals made.

4 No resolution shall be passed at a General Meeting on matters which do not appear on the agenda except for:

- a resolution convening an Extraordinary General Meeting; or
- the setting up of a special audit.

Article 10

Presiding officer; Minutes

1 The Chairman or any member of the Board of Directors shall preside at General Meetings and carry all procedural powers.

2 Minutes of General Meetings shall be kept by the Secretary of the Board of Directors.

Article 11

Voting rights; Proxies

1 Each share recorded in the share register as share with voting rights confers one vote on its holder.

2 At General Meetings no person may exercise, directly or indirectly, voting rights, with respect to own shares or shares represented by proxy, in excess of 5% of the share capital as recorded in the commercial register. Legal entities that are linked to one another through capital, voting rights, management or in any other manner, as well as all natural persons or legal entities achieving an understanding or forming a syndicate or otherwise acting in concert to circumvent such a limit, shall be counted as one shareholder.

3 The foregoing limit does not apply to shares received and held by a shareholder pursuant to an acquisition of an enterprise, or parts of an enterprise or participations as referred in art. 5 par. 5.

4 In order to permit the exercise of voting rights in respect of shares deposited with banks, the Board of Directors may by means of regulations or agreements with banks depart from the limit foreseen in this article. It may also depart from such a limit within the framework of the regulations referred to in art. 5 par. 6 and par. 9. In addition, this limit shall not apply to the exercise of voting rights pursuant to the statutory rules on institutional shareholder representatives.

Article 12

Quorum and decisions

1 General Meetings shall be duly constituted irrespective of the number of shareholders present or of shares represented.

2 Unless provided otherwise by law or the Articles of Association, shareholders' resolutions and elections shall be decided by an absolute majority of the shares represented.

3 Votes shall be taken either on a show of hands or by electronic voting unless a vote by written ballot is ordered by the Presiding officer of the meeting. The Presiding officer may at any time order to repeat an election or resolution, if he doubts the results of the vote. In this case, the preceding election or resolution is deemed not having taken place.

4 If the first ballot fails to result in an election and more than one candidate is standing for election, the Presiding officer shall order a second ballot, in which a relative majority shall be decisive.

Article 13

Special quorum

The approval of at least two thirds of the shares represented and the absolute majority of the nominal value represented at a General Meeting shall be required for resolutions with respect to:

- a) a modification of the purpose of Nestlé;
- b) the creation of shares with increased voting powers;
- c) restrictions on the transfer of registered shares and the change or removal of such restrictions;
- d) an authorized or conditional increase in share capital;
- e) an increase in share capital through the conversion of capital surplus, through a contribution in kind or for the purpose of an acquisition of assets, or a grant of special benefits upon a capital increase;
- f) the restriction or withdrawal of the right to subscribe;
- g) a change of the registered offices of Nestlé;
- h) the dissolution of Nestlé;
- i) restrictions on the exercise of voting rights and the change or removal of such restrictions;
- j) the limitation on registration (art. 5 par. 4 to 7) and the limitation on voting rights (art. 11 par. 2, 3 and 4) and the change or removal of such limitations;
- k) the change of the corporate name of Nestlé; and
- l) other matters as provided by statutory law.

B. Board of Directors

Article 14

Number of Directors

The Board of Directors shall consist of at least seven members.

Article 15

Term of office

1 The members of the Board of Directors shall be elected for a term of office of three years by the General Meeting. Each year the Board shall be renewed by rotation, to the extent possible in equal numbers and in such manner that, after a period of three years, all members will have been subject to re-election. Directors shall be elected individually.

2 In the event of an increase or a decrease in the number of Directors, the Board of Directors shall establish a new order of rotation. It follows that the term of office of some members may be less than three years.

3 Members of the Board of Directors whose term of office has expired shall be immediately eligible for re-election.

4 A year shall mean the period running between one Annual General Meeting and the next.

Article 16

Organisation of the Board; Remuneration

1 The Board of Directors shall elect its Chairman and one or two Vice-Chairmen. It shall appoint a Secretary and his substitutes, neither of whom need be members of the Board of Directors.

2 The Board of Directors shall define in the Board regulations pursuant to art. 19 par. 2 its organisation and the assignment of responsibilities.

3 The members of the Board of Directors are entitled to a directors' fee for their activities the amount of which is fixed by the Board of Directors.

Article 17

Powers of the Board in general

The Board of Directors shall conduct all the business of Nestlé to the extent that it is not within the powers of the General Meeting or not delegated pursuant to the Board regulations as set forth in art. 19 par. 2.

Article 18

Specific powers of the Board

The Board of Directors has the following non-transferable and inalienable duties:

- a) the ultimate direction of the business of Nestlé, in particular the conduct, management and supervision of the business of Nestlé, and the provision of necessary directions;
- b) the determination of the organisation in the Board regulations pursuant to art. 19 par. 2;
- c) the determination of accounting and financial control principles;
- d) the appointment and removal of the persons entrusted with the management and the granting of signatory powers to persons representing Nestlé;
- e) the ultimate supervision of the persons entrusted with the management of Nestlé, ensuring in particular their compliance with the law, the Articles of Association, regulations and instructions given;
- f) the preparation of the business report in accordance with the provisions of the law;
- g) the preparation of General Meetings and the carrying out of its resolutions;
- h) the determination of the manner in which the dividend shall be paid;
- i) the opening and closing of branch offices; and
- j) the notification of the court in case of overindebtedness.

Article 19

Delegation of powers

1 The Board of Directors may appoint from amongst its members standing or ad hoc committees entrusted with the preparation and execution of its decisions or the supervision of specific parts of the business. The Board of Directors shall ensure that it is kept properly informed.

2 Unless otherwise provided by law, the Board of Directors may in accordance with the Board regulations delegate all or part of the management to one or more of its members, to one or more board committees, or to third parties.

C. Auditors

Article 20

Number of Auditors; Term of office

The General Meeting shall appoint, for a term of one year, one or more Auditors of the annual financial statements of Nestlé and the consolidated financial statements of the Group, which shall be independent from Nestlé and meet the special professional standards required by law. The Auditors of Nestlé may be re-elected.

Article 21

Rights and duties of Auditors

The Auditors shall verify the annual financial statements of Nestlé and the consolidated financial statements of the Group. The Auditors shall submit their reports to the General Meeting. Their rights and duties shall be as set out in the Swiss Code of Obligations.

IV. Business report and appropriation of profit resulting from the balance sheet

Article 22

Financial year

The financial year shall commence on 1 January and shall end on 31 December.

Article 23

Business report

For every financial year the Board of Directors shall prepare a business report consisting of the annual financial statements of Nestlé, of the annual report and the consolidated financial statements.

Article 24

Appropriation of profit resulting from the balance

The profit shall be allocated by the General Meeting within the limits set by applicable law. The Board of Directors shall submit its proposals to the General Meeting.

V. Announcements, Communications

Article 25

Notices

All notices and communications to be made by Nestlé shall be considered duly made if published in the "Swiss Official Gazette of Commerce", unless the law provides otherwise.

Articles of Association as revised by the Annual General Meeting of 10 April 2008

